KPMG

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Anchorage, AK 99501

Independent Auditors' Report

Division of Retirement and Benefits
State of Alaska Public Employees' Retirement System:

We have audited the accompanying statements of plan net assets of the State of Alaska Public Employees' Retirement System (Plan), a Component Unit of the State of Alaska, as of June 30, 2005 and 2004, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the State of Alaska Public Employees' Retirement System, a Component Unit of the State of Alaska, as of June 30, 2005 and 2004, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying required supplementary information of management's discussion and analysis on pages 15 to 21 and schedules of funding progress and employer contributions on pages 47 to 53 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 and 2 on pages 54 and 55 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This information is the responsibility of the Plan's management, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The investment, actuarial and statistical data on pages 57 through 101 are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the State of Alaska Public Employees' Retirement System (Plan), a Component Unit of the State of Alaska. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

KPMG LLP

September 30, 2005, except as to note 7
which is as of October 28, 2005

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

June 30, 2005 and 2004

This section presents management's discussion and analysis (MD&A) of the Public Employees' Retirement System's (Plan) financial position and performance for the years ended June 30, 2005 and 2004. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements, notes to the financial statements, required supplementary, and additional information to better understand the financial condition and performance of the Plan during the fiscal years ended June 30, 2005 and 2004. Information for fiscal year 2003 is presented for comparative purposes.

Financial Highlights

The Plan's total current assets exceeded its total current liabilities by $8,590,752,000 and $8,177,306,000 at the close of fiscal years 2005 and 2004, respectively.

The Plan's "Net assets held in trust for pension and postemployment healthcare benefits" as of June 30, 2005 and 2004 increased by $413,446,000 or 5.1% and $785,851,000 or 10.6% over the closing balances of those assets in fiscal years 2004 and 2003, respectively.

Plan member and employer contributions received totaled $292,845,000 and $224,139,000 during fiscal years 2005 and 2004; an increase of $68,706,000 and $12,829,000 or 30.7% and 6.1% from fiscal years 2004 and 2003, respectively.

Net investment income decreased from $1,064,605,000 to $692,303,000 during fiscal year 2005 and increased from $237,205,000 to $1,064,605,000 during fiscal year 2004; reflecting a decrease of (35.0%) and an increase of 348.8% from fiscal years 2004 and 2003, respectively.

Pension benefit and postemployment healthcare payments totaled $550,112,000 and $496,750,000 during fiscal years 2005 and 2004; reflecting an increase of $53,362,000 and $45,735,000 or 10.7% and 10.1% from fiscal years 2004 and 2003, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Plan's basic financial statements. The Plan's basic financial statements are comprised of three components: (1) statement of plan net assets, (2) statement of changes in plan net assets, and (3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

Statement of Plan Net Assets – This statement presents information regarding the Plan's assets, liabilities, and net assets. Net assets represent the total amount of assets less the total amount of liabilities. The Statement of Plan Net Assets classifies assets, liabilities, and net assets as current, noncurrent, and restricted.

Statement of Changes in Plan Net Assets – This statement presents how the Plan's net assets changed during the fiscal year as a result of contributions, investment income, operating expenses, and transfers.

The above statements represent resources available for investment and the payment of benefits as of the fiscal year-end and the sources and uses of those funds during the fiscal year.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

Notes to the Financial Statements – The notes to the financial statements are an integral part of the financial statements and provide additional detailed information and schedules to better understand the Plan's financial statements.

Required Supplementary Information – The required supplementary information consists of three schedules and related notes concerning the funded status of the Plan and actuarial assumptions and methods used in the actuarial valuation.

Other Supplementary Schedules – Other supplementary schedules include detailed information on administrative and investment expenses incurred by the Plan and payments to consultants for professional services.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

Condensed Financial Information

NET ASSETS
(000's omitted)

Description	2005	2004	Increase/Decrease Amount	Increase/Decrease %	2003
Assets:					
Cash and receivables	$ 12,275	9,702	2,573	26.5%	9,373
Securities lending collateral	659,801	993,268	(333,467)	(33.6)	637,427
Investments, at fair value	8,585,876	8,174,863	411,013	5.0	7,388,741
Other assets	12	126	(114)	(90.5)	166
Total assets	9,257,964	9,177,959	80,005	0.9	8,035,707
Liabilities:					
Accrued expenses	6,541	7,281	(740)	(10.2)	6,764
Security lending collateral payable	659,801	993,268	(33,467)	(33.6)	637,427
Other liabilities	870	104	766	736.5	61
Total liabilities	667,212	1,000,653	(333,441)	(33.3)	644,252
Total net assets	$8,590,752	8,177,306	413,446	5.1%	7,391,455

CHANGES IN NET ASSETS
(000's omitted)

Net assets, beginning of year	$8,177,306	7,391,455	785,851	10.6%	7,412,833
Additions:					
Contributions	292,845	224,139	68,706	30.7	211,310
Net investment income	692,303	1,064,605	(372,302)	(35.0)	237,205
Other additions	3	152	(149)	(98.0)	27
Transfer in from Retiree Health Fund	-	13,724	(13,724)	(100.0)	-
Total additions	985,151	1,302,620	(317,469)	(24.4)	448,542
Deductions:					
Benefits	550,112	496,750	53,362	10.7	451,015
Refunds	16,587	14,723	1,864	12.7	13,025
Administrative expenses	5,006	5,296	(290)	(5.5)	5,880
Total deductions	571,705	516,769	54,936	10.6	469,920
Increase (decrease) in net assets	413,446	785,851	(372,405)	(47.4)	(21,378)
Net assets, end of year	$8,590,752	8,177,306	413,446	5.1%	7,391,455

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

Financial Analysis of the Plan

The Statement of Plan Net Assets as of June 30, 2005 and 2004 showed total assets exceeding total liabilities by $8,590,752,000 and $8,177,306,000. These amounts represent the Plan "Net assets held in trust for pension and postemployment healthcare benefits." The entire amount is available to cover the Plan's obligations to pay pension and postemployment healthcare benefits to its members and their beneficiaries.

These amounts also represent an increase in "Net assets held in trust for pension and postemployment healthcare benefits" of $413,446,000 or 5.1% and $785,851,000 or 10.6% from fiscal years 2004 and 2003, respectively. Over the long term, plan member and employer contributions, as well as investment income earned, are expected to sufficiently fund the pension benefit and postemployment healthcare costs of the Plan.

The investment of pension funds is a long-term undertaking. On an annual basis, the Alaska State Pension Investment Board (ASPIB) reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/return level given the Plan's constraints and objectives. During fiscal year 2005, ASPIB adopted an asset allocation that includes 36% in domestic equities, 15% in international equities, 24% in domestic fixed income, 2% in international fixed income, 6% in private equity, 2% in high yield, 3% in absolute return, 3% in other investments, and 9% in real estate. This asset allocation is expected to provide a five year median return of 7.84%.

For fiscal years 2005 and 2004, the Plan's investments generated a 8.95% and a 15.08% rate of return, respectively. The Plan's annualized rate of return was 9.13% over the last three years and 3.06% over the last five years.

Actuarial Valuations and Funding Progress

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to participants. The employer contribution requirements are determined as a percentage of eligible salaries, and reflect the cost of benefits accruing in fiscal year 2005 and a fixed amortization of the unfunded accrued liability. The amortization period is set by the Public Employees' Retirement Board. Employer contribution levels are recommended by the Actuary and adopted by the Board each year. Increasing healthcare costs continue to impact the Plan's funding ratio. The ratio of assets to liabilities was 72.8%, using June 30, 2003 net assets as a base (the date of the Plan's latest actuarial valuation report). The goal for the Plan is to make progress toward achieving the funding objectives of the Plan.

A summary of the actuarial assumptions and methods is presented in the Notes to Required Supplementary Information. The assumptions, when applied in combination, fairly represent past and anticipated future experience of the Plan.

The fiscal year 2006 employer consolidated rate decreased from 13.31% to 13.24%, the average past service rate was 12.39%, thus producing a total average rate for all employers in the Plan of 25.63%.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

The Public Employees' Retirement Board adopted an average employer contribution rate of 16.77%.

	Valuation Year (000's omitted) 2003	2002
Valuation Assets	$ 7,687,281	7,412,833
Accrued Liabilities	10,561,653	9,859,591
Funding ratio	72.8%	75.2%

Contributions and Investment Income

The revenues required to finance retirement benefits are accumulated through a combination of employer and plan member contributions and investment income.

Revenues
(000's omitted)

	2005	2004	Increase/(Decrease) Amount	Increase/(Decrease) Percent	2003
Plan Member Contributions	$ 114,640	118,554	(3,914)	(3.30)%	112,112
Employer Contributions	178,205	105,585	72,620	68.78	99,198
Net Investment Income	692,303	1,064,605	(372,302)	(34.97)	237,205
Total	**$ 985,148**	**1,288,744**	**(303,596)**	**(23.56)%**	**448,515**

Employer contributions increased from $105,585,000 in fiscal year 2004 to $178,205,000 during fiscal year 2005; an increase of $72,620,000 or 68.8%. Employer contributions increased from $112,112,000 in fiscal year 2003 to $118,554,000 during fiscal year 2004, an increase of $6,442,000 or 5.7%. Increases experienced in fiscal year 2005 are largely due to changes in actuarial assumptions and methods implemented in the valuation for the period ending June 30, 2002 (the valuation year used to set fiscal year 2005 employer contribution rates). Increases experienced in fiscal year 2004 are due to normal differences between actual experience and experience assumed in the valuation.

Investment income in fiscal year 2005 decreased by $372,302,000 or (35.0%) from amounts recorded in fiscal year 2004. Investment income in fiscal year 2004 increased by $827,400,000 or 348.8% from amounts recorded in fiscal year 2003. Changes in both years are due to the performance of the equity markets. Returns in these markets in fiscal year 2004 were in excess of 20% compared to a negative return in fiscal year 2003; likewise, returns in these markets in fiscal year 2005 were back in the 4.5% range for domestic securities and 15% range for international securities. The Plan's investments in equities represent more than 50% of total investments.

Over the long term, the investment portfolio has been a major component in additions to plan assets. During fiscal year 2005, the Plan continued to record significant rates of return on investments. The Plan's rate of return for fiscal year 2005 was 8.95%. The rate of return used in the actuarial valuation report to determine liabilities of the plan was 8.25%. The actual rate of return exceeded the actuarial rate of return for the second consecutive year.

During fiscal year 2004, a review was conducted of all medical reserve amounts in the Retiree Health Fund, the result was an excess computed amount of net assets not specifically identified to other reserves. The excess amount of $20,000,000 was moved back to the respective retirement system. In fiscal year 2004, the Plan recognized a transfer of $13,724,000 from the Retiree Health Fund.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

Benefits, Refunds, and Expenses

The primary expense of the Plan is the payment of pension benefits. These benefit payments, together with postemployment healthcare premiums paid, lump sum refunds made to former plan members, and the cost of administering the Plan comprise the costs of operations.

Expenses
(000's omitted)

			Increase/(Decrease)		
	2005	**2004**	**Amount**	**%**	**2003**
Pension Benefits	$ 357,763	329,390	28,373	8.6%	307,684
Healthcare Benefits	192,349	167,360	24,989	14.9	143,331
Refunds of Contributions	16,587	14,723	1,864	12.7	13,025
Administrative Expenses	5,006	5,296	(290)	(5.5)	5,880
Total	**$ 571,705**	**516,769**	**54,936**	**10.6%**	**469,920**

Pension benefit payments in 2005 and 2004 increased $28,373,000 and $21,706,000 or 8.6% and 7.1% from fiscal years 2004 and 2003, respectively. The majority of the increase in pension benefits was the result of a continuing increase in the number of retirees. The Plan's board did not grant a discretionary cost-of-living (ad hoc post retirement pension adjustment [ad hoc PRPA]) increase for fiscal year 2005.

Postemployment healthcare benefits in 2005 and 2004 increased $24,989,000 and $24,029,000 or 14.9% and 16.8% from fiscal years 2004 and 2003, respectively. Healthcare costs continue to rise in amounts exceeding 10% year over year and the increase is also directly related to the increased number of retirees in the Plan.

Funding

Retirement benefits are financed by accumulations from employer and plan member contributions and income earned on the Plan's investments.

- Employer contributions are determined by the Plan's consulting actuaries and approved by the Plan's governing board.
- Plan member contributions are determined by statute.
- The ASPIB works in conjunction with the Department of Revenue, Division of Treasury, in determining the proper asset allocation strategy.

Legislation

During the fiscal year 2005 legislative session, two laws were enacted that affect the Plan:

House Bill 161 – An Act relating to reemployment of and benefits for retired teachers and public employees and to teachers or employees who participated in retirement incentive programs and are subsequently reemployed as a commissioner; and providing for an effective date.

Senate Bill 141 – An Act creating defined contribution and health reimbursement plans for members of the teachers' retirement system and the public employees' retirement system who are first hired after July 1, 2006; establishing the Alaska Retirement Management Board to replace the Alaska State Pension Investment Board, the Alaska Teachers' Retirement Board, and the Public Employees' Retirement Board; adding appeals of the decisions of the administrator of the teachers' and public employees' retirement systems to the jurisdiction of the office of administrative hearings; and providing for an effective date.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

Economic Conditions, Future Contribution Rates, and Status of Unfunded Liability

Overall, the Plan's investments returned 8.95% for the year. The Plan did exceed its' actuarially assumed investment return of 8.25% for the second consecutive year. Even with the real investment returns exceeding the actuarial rate of return, the Plan will most likely continue to see an increase in employer contribution rates.

The financial market environment continues to challenge investors. With the threat of inflation, interest rate increases by the Federal Reserve Bank, and continued turmoil in the Middle East, many forces once again pose challenges to Plan investments. ASPIB continues to diversify the portfolio of the Plan to maintain an optimal risk/return ratio.

The impact of fiscal year 2001 and 2002's decline on the Plan's market value, returns less than the actuarial rate of return in fiscal year 2003, and the additional impacts of increasing healthcare premiums paid to the Retiree Health Fund continue to weigh on the Plan's funding ratio and the employer contribution rates. Typically, when the Plan earns less than the actuarial rate of return, or experiences costs in excess of those assumed, the effect is an increase to the employer contribution rate. This was the case in fiscal year 2003, which impacts the Plan's funding status as of June 30, 2003, as well as the fiscal year 2005 employer contribution rate. Due to investment deficiencies, demographic experiences greater than valuation assumptions, and the contribution shortfall compared to the actuarially calculated rate, the June 30, 2003, actuarial valuation report for the Plan reported a funding ratio of 72.8%, slightly lower than the fiscal year 2002's funding ratio of 75.2%.

The consulting actuary recommended an increase from the average employer contribution rate of 24.91% in fiscal year 2005 to 25.63% in fiscal year 2006. The PERS board adopted an average employer contribution rate of 16.77% for fiscal year 2006, up 5 points from the fiscal year 2005 employer contribution rate of 11.77%. The primary reason for the 5 point change in the average employer contribution rate is due to the Plan's regulation, 2 AAC 35.900 Maximum Employer Contribution Rate Change, which states "The maximum change in the contribution rate from one year to the next shall be no more than five percentage points, as actuarially calculated, whether the change is an increase or a decrease." Despite a modest 0.72 point change in the calculated average employer contribution rates from fiscal year 2005 to 2006 prescribed by the Plan's consulting actuary, regulations prohibit more than a 5 point change from year to year, so the Board was limited in its capacity to increase the employer rates. This regulation was put in place to reduce the volatility that employer contribution rates could have in market conditions similar to the past couple of years, as well as conditions that are beyond the control of the Plan, such as rising healthcare costs. However, even with the 5 point increase to 16.77%, employers are paying only a little less than two-thirds of the average total employer contribution rate of 25.63% in fiscal year 2006.

Requests for Information

This financial report is designed to provide a general overview of the Plan's finances for all those with interest in the Plan's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Alaska Public Employees' Retirement System, Division of Retirement and Benefits, Accounting Section, P.O. Box 110203, Juneau, Alaska 99811-0203.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Statements of Plan Net Assets

June 30, 2005 and 2004
(000's omitted)

	2005			2004		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Current assets:						
Cash and cash equivalents (notes 3 and 5):						
Short-term fixed income pool	$ 407	247	654	359	152	511
Securities lending collateral	410,431	249,370	659,801	697,815	295,453	993,268
Total cash and cash equivalents	410,838	249,617	660,455	698,174	295,605	993,779
Receivables:						
Contributions	7,229	4,392	11,621	6,457	2,734	9,191
Total receivables	7,229	4,392	11,621	6,457	2,734	9,191
Investments (notes 3-5 and 7):						
Domestic equity pool	2,828,626	467,654	3,296,280	2,453,196	845,777	3,298,973
Domestic fixed income pool	1,188,353	722,022	1,910,375	1,552,168	657,183	2,209,351
International equity pool	832,084	505,559	1,337,643	958,337	405,757	1,364,094
Real estate pool	514,772	312,766	827,538	441,475	186,619	628,394
International fixed income pool	198,622	120,679	319,301	208,994	88,487	297,481
Private equity pool	236,282	143,561	379,843	189,148	80,085	269,233
Emerging markets equity pool	83,402	50,674	134,076	69,676	29,501	99,177
Absolute return pool	131,012	79,601	210,613	-	-	-
High yield pool	86,119	52,325	138,444	-	-	-
Other investment pool	19,758	12,005	31,763	5,733	2,427	8,160
Total investments	6,119,030	2,466,846	8,585,876	5,878,727	2,296,136	8,174,863
Loans and mortgages, net of allowance for loan losses of $5 in 2005 and $16 in 2004	6	4	10	83	36	119
Other	2	-	2	5	2	7
Total assets	6,537,105	2,720,859	9,257,964	6,583,446	2,594,513	9,177,959
Current liabilities:						
Accrued expenses	4,069	2,472	6,541	5,115	2,166	7,281
Due to State of Alaska General Fund	541	329	870	71	31	102
Securities lending collateral payable (note 5)	410,431	249,370	659,801	697,815	295,453	993,268
Mortgage escrow liability	-	-	-	2	-	2
Total liabilities	415,041	252,171	667,212	703,003	297,650	1,000,653
Commitments and Contingencies (note 7)						
Net assets held in trust for pension and postemployment healthcare benefits	**$6,122,064**	**2,468,688**	**8,590,752**	**5,880,443**	**2,296,863**	**8,177,306**

(Schedules of funding progress are presented on pages 47 and 48.)

See accompanying notes to financial statements.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Statements of Changes in Plan Net Assets

Years ended June 30, 2005 and 2004
(000's omitted)

	2005			2004		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Additions:						
Contributions:						
Employers	$ 110,853	67,352	178,205	74,178	31,407	105,585
Plan members	71,312	43,328	114,640	83,290	35,264	118,554
Total contributions	182,165	110,680	292,845	157,468	66,671	224,139
Investment income:						
Net appreciation in fair value (note 3)	285,594	173,522	459,116	591,306	250,357	841,663
Interest	77,430	47,045	124,475	88,159	37,327	125,486
Dividends	87,430	53,120	140,550	87,121	36,886	124,007
Net mortgage loan recovery	7	4	11	-	-	-
Total investment income	450,461	273,691	724,152	766,586	324,570	1,091,156
Less investment expense	19,812	12,037	31,849	18,653	7,898	26,551
Net investment income	430,649	261,654	692,303	747,933	316,672	1,064,605
Other	2	1	3	107	45	152
Transfer in from Retiree Health Fund (note 6)	-	-	-	-	13,724	13,724
Total additions	612,816	372,335	985,151	905,508	397,112	1,302,620
Deductions:						
Benefits	357,763	192,349	550,112	329,390	167,360	496,750
Refunds of contributions	10,318	6,269	16,587	10,344	4,379	14,723
Administrative expenses	3,114	1,892	5,006	3,721	1,575	5,296
Total deductions	371,195	200,510	571,705	343,455	173,314	516,769
Net increase	241,621	171,825	413,446	562,053	223,798	785,851
Net assets held in trust for pension and postemployment healthcare benefits:						
Balance, beginning of year	5,880,443	2,296,863	8,177,306	5,318,390	2,073,065	7,391,455
Balance, end of year	**$6,122,064**	**2,468,688**	**8,590,752**	**5,880,443**	**2,296,863**	**8,177,306**

See accompanying notes to financial statements.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2005 and 2004

(1) DESCRIPTION

The following brief description of the State of Alaska Public Employees' Retirement System (Plan), a Component Unit of the State of Alaska, is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

General

The Plan is a defined benefit, agent, multiple employer public employee retirement system established and administered by the State of Alaska (State) to provide pension and postemployment healthcare benefits for eligible State and local government employees. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a component unit of the State financial reporting entity and is included in the State's financial reports as a pension trust fund. The State employees who administer the Plan participate in the Plan.

At June 30, 2005 and 2004, the number of participating local government employers and public organizations including the State was:

	2005	2004
State of Alaska	1	1
Municipalities	77	79
School districts	53	53
Other	29	28
	160	**161**

Inclusion in the Plan is a condition of employment for eligible State employees, except, as otherwise provided, for judges, elected officers, and certain employees of the Alaska Marine Highway System. Any local government in the state may elect to have its permanent general and police and fire department employees covered by the Plan. At June 30, 2003 and 2002, the dates of the two most recent actuarial valuations, which included Plan membership data, Plan membership consisted of:

	2003	2002
Retirees and beneficiaries currently receiving benefits	18,431	17,215
Terminated plan members entitled to future benefits	5,841	5,702
	24,272	22,917
Current plan members:		
General	31,338	30,547
Police and fire	2,727	2,695
	34,065	33,242
	58,337	**56,159**
Current plan members:		
Vested:		
General	16,369	16,944
Police and fire	1,739	1,715
Nonvested:		
General	14,969	13,603
Police and fire	988	980
	34,065	**33,242**

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2005 and 2004

Pension Benefits

Employees hired prior to July 1, 1986, with five or more paid-up years of credited service are entitled to monthly pension benefits beginning at normal retirement age, fifty-five, or early retirement age, fifty. For employees first hired after June 30, 1986, the normal and early retirement ages are sixty and fifty-five, respectively. Employees with thirty or more years of credited service (twenty years for peace officers and firefighters) may retire at any age and receive a normal benefit.

The normal monthly pension benefit is based on years of service and average monthly compensation. For employees hired prior to July 1, 1996, and all police and fire employees, the average monthly compensation is based upon the employees' three highest, consecutive years salaries. For all other employees hired after June 30, 1996, average monthly compensation is based upon the employees' five highest, consecutive years salaries.

The benefit related to all years of service prior to July 1, 1986, and for years of service through a total of ten years for general employees is equal to 2% of the employee's average monthly compensation for each year of service. The benefit for each year over ten years of service subsequent to June 30, 1986, is equal to 2-1/4% of the employee's average monthly compensation for the second ten years and 2-1/2% for all remaining years of service. For police and fire employees, the benefit for years of service through a total of ten years is equal to 2% of the employee's average monthly compensation and 2-1/2% for all remaining years of service.

Minimum benefits for employees eligible for retirement are $25 per month for each year of credited service.

Married members must receive their benefits in the form of a joint and survivor annuity unless their spouses consent to another form of benefit or another person is eligible for benefits under a qualified domestic relations order.

The Plan has two types of post retirement pension adjustments (PRPA). The automatic PRPA is issued annually to all eligible benefit recipients, when the cost of living increases in the previous calendar year. The automatic PRPA increase is paid beginning July 1 of each year. The discretionary PRPA may be granted to eligible recipients by the Plan Administrator, if the cost of living in the previous calendar year rises and the financial condition of the Plan permits. If both an automatic and discretionary PRPA are granted, and a retiree is eligible for both adjustments, the one that provides the retiree the greater increase will be paid.

Postemployment Healthcare Benefits

Major medical benefits are provided to retirees without cost for all employees hired before July 1, 1986. Employees hired after July 1, 1986, with five years of credited service (or ten years of credited service for those first hired after July 1, 1996) must pay the full monthly premium if they are under age sixty, and receive benefits at no premium cost if they are over age sixty or are receiving disability benefits. Police and fire employees with 25 years of membership service also receive benefits at no premium cost.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2005 and 2004

Prior to July 1, 1997, postemployment healthcare benefits were provided by the payment of premiums to an insurance company. Beginning July 1, 1997, the Retiree Health Fund (RHF), a pension trust fund of the State, was established. The RHF is self-funded and provides major medical coverage to retirees of the Plan. Retirees of three other State retirement plans also participate in the RHF. The Plan, along with the other participating plans, retains the risk of loss of allowable claims. Each year, RHF issues a publicly available financial report, which may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

Death Benefits

If an active other Plan member dies from occupational causes, the spouse may receive a monthly pension equal to 40% of the Plan member's salary. If an active police and fire Plan member dies from occupational causes, the spouse may receive a monthly pension equal to 50% of the Plan member's salary or 75% of the member's retirement benefit calculated as if the member had survived until normal retirement age, whichever is greater. When death is due to occupational causes and there is no surviving spouse, the Plan member's dependent child(ren) may receive the monthly pension until they are no longer dependents. The amount of the occupational death pension changes on the date the Plan member's normal retirement would have occurred if the Plan member had lived. The new benefit is based on the Plan member's average monthly compensation at the time of death and the credited service, including service that would have accrued if the Plan member had lived and continued to work until normal retirement. If the death was from nonoccupational causes, and the Plan member was vested, the spouse may receive a monthly survivor benefit based on a 50% joint and survivor option. If the Plan member is not married or vested, a lump sum death benefit is payable to the named beneficiary(ies).

Disability Benefits

Active Plan members who become permanently disabled due to occupational or nonoccupational causes receive disability benefits until normal retirement age or when the service requirement for normal retirement is met. Although there are no minimum service requirements for Plan members to be eligible for occupational disability, Plan members must be vested to receive nonoccupational disability benefits. The monthly occupational disability benefit is equal to 40% of the Plan member's salary at the time of the disability. The nonoccupational disability benefit is based on the Plan member's service and salary at the time of disability. At normal retirement age, a disabled other Plan member receives normal retirement benefits. A police and fire Plan member may elect to receive normal retirement benefits calculated under the occupational disability benefit rules.

Contributions

<u>Plan Member Contributions</u>

Contribution rates are 7.5% for peace officers and firefighters, 9.6% for some school district employees, and 6.75% for other Plan members, as required by statute. The Plan member contributions are deducted before federal income tax

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2005 and 2004

is withheld. Contributions are collected by employers and remitted to the Plan and may be voluntarily or, under certain circumstances, involuntarily refunded to the employee or a garnishing agency sixty days after termination of employment. Plan member contributions earn interest at the rate of 4.5% per annum, compounded semiannually.

Employer Contributions

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay both pension and postemployment healthcare benefits when due. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The Plan uses the level percentage of pay method to amortize the unfunded liability or the funding surplus over a twenty-five year fixed period.

Administrative Costs

Administrative costs are financed through investment earnings.

Due To State of Alaska General Fund

Amounts due to the State of Alaska General Fund represent the net difference between amounts paid by the Plan on behalf of others and amounts paid by others on behalf of the Plan.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Plan's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Contributions are recognized in the period in which they are due. Benefits and refunds are recognized when due and payable.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

GASB Statements No. 25 and No. 26

Government Accounting Standards Board (GASB) Statements No. 25 and No. 26 require that plan net assets be split between pension and postemployment healthcare. To meet these requirements, plan assets, liabilities, revenues, and expenses not specifically identifiable to either plan are allocated to the pension and postemployment healthcare plans based on their proportionate share of actuarial accrued liabilities.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2005 and 2004

Investments

Investments are recorded at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31. Fair value is "the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller – that is, other than in a forced or liquidation sale." Security transactions and any resulting gains or losses are accounted for on a trade date (ownership) basis at the current fair value. Dividend income on domestic and international equity securities is accrued on the ex-dividend date. Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment expense consists of those administrative expenses directly related to the Plan's investment operations.

In fiscal year 2005, Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures* was implemented. GASB Statement No. 40 addresses disclosures on deposits and investments, focusing on common investment risks related to interest rate risk, credit risk, foreign currency risk, and concentration of credit risk.

Fixed income securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the midpoint between the bid and asked price or at prices for securities of comparable maturity, quality, and type. Money market funds are valued at amortized cost, which approximates fair value.

Equity securities are valued each business day using prices obtained from a pricing service or prices quoted by one or more independent brokers.

Emerging markets securities are valued at their current market or fair values on the last business day of each month by the Trustee.

Private equity securities are valued quarterly by the general partners and investment sponsors. The private equity oversight manager is held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments.

Absolute return investments are valued monthly by the general partners. The fund administrators are held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments.

The energy related investment in the other investments pool is valued quarterly by the general partner. The agricultural investments are valued quarterly by investment managers. Valuations are based on market conditions and knowledge of industry trends. Agricultural holdings are appraised once every three years, in conjunction with the purchase anniversary date, by independent appraisers.

With the exception of real estate investment trust holdings, real estate investments are valued quarterly by investment managers based on market conditions and their knowledge of industry trends. Separate account real estate investments are appraised once every three years, in conjunction with the property's purchase anniversary date, by independent

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2005 and 2004

appraisers. Real estate investment trust holdings are valued each business day using prices obtained from a pricing service.

Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing exchange rates. Forward currency contracts are valued at the midpoint of representative quoted bid and asked prices.

Mortgage loans are valued at their principal balance (cost) less an allowance for loan loss, the net result of which approximates fair value. At June 30, 2005 and 2004, the allowance for loan loss totaled $5,221 and $16,221, respectively, and is considered by management to be sufficient to cover any losses to the mortgage loan portfolio.

The cost of securities is determined on the average cost basis.

Income in the short-term fixed income pool is calculated daily and credited monthly to each participant on a pro rata basis.

Income in the net domestic fixed income pool, equity pools, international fixed income pool, and the high yield pool is credited daily to each participant on a pro rata basis.

Income in the emerging markets, private equity, absolute return, other investments and real estate pools is credited to pool participants monthly on a pro rata basis.

Contributions Receivable

Contributions from plan members and employers for service through June 30 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

Federal Income Tax Status

The Plan is a qualified plan under Section 401(a) of the Internal Revenue Code and is exempt from federal income taxes under Section 501(a).

Reclassifications

Certain reclassifications not affecting changes in net assets held in trust for pension and postemployment healthcare benefits have been made to 2004 amounts in order to conform to the 2005 presentation.

(3) INVESTMENTS

The Alaska State Pension Investment Board (ASPIB) has statutory oversight of the Plan's investments. As the fiduciary, ASPIB has the statutory authority to invest the assets under the Prudent Investor Rule. Alaska Statute provides that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion, and intelligence exercises in managing large investment portfolios.

The Department of Revenue, Treasury Division (Treasury), provides staff for the ASPIB. Treasury has created a pooled environment by which it manages the investments the ASPIB has fiduciary responsibility for. Actual investing is performed by investment officers in the State's Department of Revenue, Treasury Division, or by contracted external investment managers. The ASPIB has developed investment

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2005 and 2004

guidelines, policies, and procedures for Treasury staff and external investment managers to adhere to when managing investments.

Short-Term Fixed Income Pool

The Plan participates in the State's internally managed short-term fixed income pool which was established March 15, 1993, with a start up and maintained share price of $1. Treasury staff determines the allocation between permissible securities. Each participant owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Participant shares also change at the beginning of each month when income is paid. At June 30, 2005 and 2004, the Plan had a 0.03% direct ownership in the short-term fixed income pool which included interest receivable of $8,927 and $5,103 respectively. The Plan had a 3.35% and 7.17% indirect ownership in the short-term fixed income pool at June 30, 2005 and 2004, respectively.

Domestic Fixed Income Pool

The domestic fixed income pool is comprised of an internally managed and an externally managed pool.

<u>Retirement Fixed Income Pool</u>

The Plan participates in the ASPIB's internally managed retirement fixed income pool which was established March 1, 1996, with a start up share price of $1,000. The share price at June 30, 2005, was $1,848. Treasury staff determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 67.32% and 67.03% ownership in the retirement fixed income pool, respectively.

<u>External Domestic Fixed Income Pool</u>

The Plan participates in the ASPIB's externally managed domestic fixed income pool which was established June 25, 1999, with a start up share price of $1,000. The share price at June 30, 2005, was $1,546. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 66.86% and 66.73% ownership in the external domestic fixed income pool, respectively.

International Fixed Income Pool

The Plan participates in the ASPIB's externally managed international fixed income pool which was established March 3, 1997, with a start up share price of $1,000. The share price at June 30, 2005, was $1,790. The manager independently determines the allocation between permissible securities. Ownership in the pool is based on the

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2005 and 2004

number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 67.81% and 67.32% ownership in the international fixed income pool, respectively.

High Yield Pool

The Plan participates in the ASPIB's externally managed high yield fixed income pool which was established April 15, 2005, with a start up share price of $1,000. The share price at June 30, 2005, was $1,016. The manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005, the Plan had a 68.14% ownership in the high yield pool.

Domestic Equity Pool

Effective July 1, 2004, the domestic equity pool was replaced with an external large cap domestic equity pool and an external small cap domestic equity pool. At June 30, 2004, the Plan had a 67.20% ownership in the domestic equity pool.

<u>Large Cap Domestic Equity Pool</u>

The Plan participates in the ASPIB's externally managed large cap domestic equity pool which was established July 1, 2004, with a start up share price of $1,000. The share price at June 30, 2005, was $1,050. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005, the Plan had a 67.63% ownership in the large cap domestic equity pool.

<u>Small Cap Domestic Equity Pool</u>

The Plan participates in the ASPIB's externally managed small cap domestic equity pool which was established July 1, 2004, with a start up share price of $1,000. The share price at June 30, 2005, was $1,019. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005, the Plan had a 67.70% ownership in the small cap domestic equity pool.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2005 and 2004

International Equity Pool

The Plan participates in the ASPIB's externally managed international equity pool which was established January 1, 1992, with a start up share price of $1,000. The share price at June 30, 2005, was $2,622. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 68.00% and 67.46% ownership in the international equity pool, respectively.

Emerging Markets Equity Pool

The Plan participates in the ASPIB's externally managed emerging markets equity pool which was established May 2, 1994, with a start up share price of $1,000. The share price at June 30, 2005, was $1,944. The pool participates in two externally managed commingled investment funds through ownership of equity shares. The commingled funds, comprised of various institutional investors, invest in the securities markets of developing countries. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 65.00% ownership in the emerging markets equity pool.

Private Equity Pool

The Plan participates in the ASPIB's externally managed private equity pool which was established April 24, 1998, with a start up share price of $1,000. The share price at June 30, 2005, was $1,365. Underlying assets in the pool are comprised of venture capital, buyouts, restructuring and special situation investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 68.15% and 67.68% ownership in the private equity pool, respectively.

Absolute Return Pool

The Plan participates in the ASPIB's externally managed absolute return pool which was established October 31, 2004, with a start up share price of $1,000. The share price at June 30, 2005, was $1,027. Underlying assets in the pool are comprised of hedge fund limited partnership agreements. Each manager independently determines the limited partnerships to invest in. Ownership in the pool is based on the number of

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2005 and 2004

shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005, the Plan had a 68.15% ownership in the absolute return pool.

Other Investments Pool

The Plan participates in the ASPIB's externally managed other investments pool which was established March 18, 2004, with a start up share price of $1,000. The share price at June 30, 2005, was $1,065. Underlying assets in the pool are comprised of a limited partnership interest in an energy related venture capital operating company and two agricultural entities. Each manager independently determines which permissible investments are made. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 68.15% and 67.68% ownership in the other investments pool, respectively.

Real Estate Pool

The Plan participates in the ASPIB's externally managed real estate pool which was established June 27, 1997, with a start up share price of $1,000. The share price at June 30, 2005, was $2,104. Underlying assets in the pool are comprised of separate accounts, commingled accounts, limited partnerships, and real estate investment trust holdings. With the exception of investments in real estate investment trusts, each manager independently determines which permissible investments are made. Treasury staff determine the permissible real estate investment trusts to invest in. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 67.70% and 67.54% ownership in the real estate pool, respectively.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2005 and 2004

At June 30, 2005, the Plan's investments included the following:

	Fair Value (In thousands)					
	Fixed Income Pools					
	Short-term	Domestic	International	High yield	Other	Total
Deposits	$ -	-	6,587	-	3,052	9,639
Overnight Sweep Account	88	935	-	37,348	-	38,371
Money Market Fund	-	-	-	-	659,801	659,801
Short-term Investment Fund	-	-	2,220	-	22,460	24,680
Commercial Paper	4,920	9,216	-	-	-	14,136
U.S. Treasury Bills	3,852	-	-	-	-	3,852
U.S. Treasury Notes	3,346	101,314	-	-	-	104,660
U.S. Treasury Bonds	-	123,573	-	-	-	123,573
U.S. Treasury Strips	-	25,160	-	-	-	25,160
U.S. Government Agency						
Discount Notes	851	7,245	-	-	-	8,096
U.S. Government Agency	-	125,170	-	-	-	125,170
Municipal Bonds	-	969	-	-	-	969
Foreign Government Bonds	-	-	212,977	-	-	212,977
Mortgage-backed	9,721	917,260	-	-	-	926,981
Other Asset-backed	27,264	112,094	-	272	-	139,630
Corporate Bonds	12,365	429,452	99,155	94,720	-	635,692
Convertible Bonds	-	-	-	1,445	-	1,445
Yankees:						
Government	-	9,502	-	-	-	9,502
Corporate	474	6,915	-	2,917	-	10,306
Domestic Equity Pool:						
Limited Partnership	-	-	-	-	177,777	177,777
Equity	-	-	-	-	3,074,626	3,074,626
International Equity Pool:						
Convertible Bonds	-	-	-	-	313	313
Equity	-	-	-	-	1,311,369	1,311,369
Emerging Markets Equity Pool	-	-	-	-	134,076	134,076
Private Equity Pool:						
Limited Partnerships	-	-	-	-	379,843	379,843
Absolute Return Pool:						
Limited Partnerships	-	-	-	-	210,613	210,613
Other Investments Pool:						
Limited Partnerships	-	-	-	-	15,097	15,097
Agricultural Holdings	-	-	-	-	16,666	16,666
Real Estate Pool:						
Real Estate	-	-	-	-	473,584	473,584
Commingled Funds	-	-	-	-	172,117	172,117
Limited Partnerships	-	-	-	-	104,288	104,288
Real Estate Investment Trusts	-	-	-	-	76,249	76,249
Mortgages	-	-	-	-	10	10
Net Other Assets (Liabilities)	637	16,443	(1,638)	1,742	7,889	25,073
Ownership by Other Pools	(62,864)	25,127	-	-	37,737	-
Invested assets	**$ 654**	**1,910,375**	**319,301**	**138,444**	**6,877,567**	**9,246,341**

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2005 and 2004

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Short-Term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life. Floating rate securities are limited to three years in maturity or three years expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2005, the expected average life of individual fixed rate securities ranged from one day to ten months and the expected average life of floating rate securities ranged from less than one year to three years.

Other Fixed Income Pools

Through ASPIB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the domestic fixed income portfolio to ±20% of the Lehman Brothers Aggregate Bond Index. The effective duration for the Lehman Brothers Aggregate Bond Index at June 30, 2005, was 4.16 years.

Through ASPIB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the international fixed income portfolio to ±25% of the Citigroup Non-U.S. World Government Bond Index. The effective duration for the Citigroup Non-U.S. World Government Bond Index at June 30, 2005, was 6.09 years.

Through ASPIB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the high yield portfolio to ±20% of the Merrill Lynch U.S. High Yield Master II Index. The effective duration for the Merrill Lynch U.S. High Yield Master II Index at June 30, 2005, was 4.58 years. The high yield pool was funded April 15, 2005. Investment managers were in the transition period at year end working towards fully investing allocated funds. Funds not invested at year end have no duration causing the pool's duration to be lower than the policy limit.

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100 basis point change in interest rates. The duration of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows.

Treasury uses industry standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, options, and other variable cash flows for purposes of the effective duration calculation.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2005 and 2004

At June 30, 2005, the effective duration of the fixed income pools, by investment type, was as follows:

	Effective duration (In years)		
	Domestic	**International**	**High yield**
U.S. Treasury Notes	3.27	-	-
U.S. Treasury Bonds	10.10	-	-
U.S. Treasury Strips	17.29	-	-
U.S. Government Agency	5.69	-	-
Municipal Bonds	13.95	-	-
Foreign Government Bonds	-	5.59	-
Mortgage-Backed	2.50	-	-
Other Asset-Backed	1.19	-	5.28
Corporate Bonds	5.27	4.17	3.59
Convertible Bonds	-	-	4.54
Yankees:			
Government	6.98	-	-
Corporate	7.68	-	4.43
Portfolio effective duration	3.99	5.00	2.64

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2005 and 2004

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations.

Treasury's investment policy has the following limitations with regard to credit risk:

With the exception of the sweep account, short-term fixed income pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least A1 or equivalent. For securities with long-term credit ratings, they may be purchased if the median rating of Standard & Poor's Corporation, Moody's and Fitch is A3 or equivalent. Asset-backed and nonagency mortgage securities may be purchased if only rated by one of the rating agencies mentioned above if they are rated AAA. Unexpected daily cash surpluses that arise in this pool are invested overnight in the custodian's repurchase agreement sweep account. Treasury does not have a policy to limit credit risk associated with the sweep account.

The ASPIB's investment policy has the following limitations with regard to credit risk:

Domestic fixed income:

Commercial paper must carry a rating of at least A1 or equivalent;

Corporate debt securities must be investment grade;

Corporate, asset-backed and non-agency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard & Poor's Corporation, Moody's and Fitch. Asset-backed and nonagency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies.

International fixed income:

Corporate debt and asset-backed securities must be investment grade.

Domestic and international equity:

Corporate debt obligations must carry a rating of at least A or equivalent.

High yield:

No more than 10% of the portfolio's assets may be invested in securities rated A3 or higher.

No more than 25% of the portfolio's assets may be invested in securities rated below B3.

No more than 5% of the portfolio's assets may be invested in unrated securities.

The lower of any Standard & Poor's Corporation, Moody's or Fitch rating will be used for limits on securities rated below B3 and the higher rating will be used for limits on securities rated A3 or higher.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2005 and 2004

Daily cash surpluses that arise in this pool are invested in the custodian's repurchase agreement sweep account. This account is secured by U.S. Government or Agency securities. As such, ASPIB does not consider this investment subject to the credit risk limitations above.

At June 30, 2005, the Plan's investments consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale):

		Fixed Income Pool				International
	Rating[1]	Short-term	Domestic	International	High Yield	Equity
Overnight Sweep Account	Not Rated	-%	-%	-%	27%	-%
Short-term Investment Account	Not Rated	-	-	1	-	1
Commercial Paper	A	8	1	-	-	-
U.S. Government Agency						
Discount Notes	Not Rated	1	-	-	-	-
U.S. Government Agency	Not Rated	-	6	-	-	-
Foreign Government	AAA	-	-	53	-	-
Foreign Government	AA	-	-	9	-	-
Foreign Government	A	-	-	5	-	-
Mortgage-backed	AAA	15	13	-	-	-
Mortgage-backed (Agency)	Not Rated	-	34	-	-	-
Other Asset-backed	AAA	39	6	-	-	-
Other Asset-backed	A	3	-	-	-	-
Corporate Bonds	AAA	1	3	24	-	-
Corporate Bonds	AA	11	3	7	-	-
Corporate Bonds	A	9	7	-	-	-
Corporate Bonds	BBB	-	10	-	1	-
Corporate Bonds	BB	-	-	-	17	-
Corporate Bonds	B	-	-	-	43	-
Corporate Bonds	CCC	-	-	-	8	-
Convertible Bonds	B	-	-	-	1	-
Yankees:						
Government	BBB	-	1	-	-	-
Corporate	A	1	-	-	-	-
Corporate	BB	-	-	-	1	-
Corporate	B	-	-	-	1	-
No credit exposure		12	16	1	1	99
		100%	**100%**	**100%**	**100%**	**100%**

[1]Rating modifiers are not disclosed.

Securities lending collateral was invested in a registered 2(a)-7 money market fund that was not rated.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2005 and 2004

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. ASPIB does not have a policy in relation to custodial credit risk for deposits. At June 30, 2005, the Plan had the following uncollateralized and uninsured deposits:

	Amount (In thousands)
International fixed income pool	$ 6,587
International equity pool	2,984
	$ 9,571

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment.

The ASPIB's policy with regard to foreign currency risk in the international fixed income pool is to restrict obligations to those issued in the currencies of countries represented in the Citibank Non-U.S. World Government Bond Index. In addition, ASPIB's asset allocation policy permits the Plan to hold up to 4% of total investments in international fixed income.

The ASPIB's policy with regard to foreign currency risk in the international equity pool and the emerging markets pool is to permit the Plan to hold up to 18% of total investments in these two pools combined.

The ASPIB's policy with regard to foreign currency risk in the private equity pool is to permit the Plan to hold up to 10% of total investments in private equity.

At June 30, 2005, the Plan had exposure to foreign currency risk with the following deposits:

	Amount (In thousands)	
Currency	**International fixed income pool**	**International equity pool**
Australian Dollar	$ 68	24
Canadian Dollar	-	21
Danish Krone	-	126
Euro Currency	-	446
Hong Kong Dollar	-	171
Japanese Yen	6,519	1,181
New Zealand Dollar	-	2
Norwegian Krone	-	249
Pound Sterling	-	232
Singapore Dollar	-	3
South Korean Won	-	1
Swiss Franc	-	4
	$6,587	**2,460**

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2005 and 2004

At June 30, 2005, the Plan had exposure to foreign currency risk with the following investments:

	Amount (In thousands)				
	International fixed income pool		International equity pool		Private equity pool
Currency	Foreign government	Corporate	Convertible bonds	Equity	Limited partnerships
Australian Dollar	$ -	-	-	21,988	-
Canadian Dollar	-	-	-	20,501	-
Danish Krone	-	-	-	2,859	-
Euro Currency	-	5,954	-	492,397	39,194
Hong Kong Dollar	-	-	-	13,425	-
Japanese Yen	27,956	93,201	-	266,857	-
New Zealand Dollar	-	-	-	4,947	-
Norwegian Krone	-	-	-	12,624	-
Polish Zloty	16,977	-	-	-	-
Pound Sterling	-	-	-	260,786	843
Singapore Dollar	-	-	-	18,458	-
South African Rand	-	-	-	4,696	-
South Korean Won	-	-	-	9,770	-
Swedish Krona	168,044	-	-	11,532	-
Swiss Franc	-	-	313,443	108,431	-
	$212,977	99,155	313,443	1,249,271	40,037

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2005 and 2004

At June 30, 2005, the Plan also had exposure to foreign currency risk in the emerging markets equity pool. This pool represents an investment in commingled investment funds; therefore, no disclosure of specific currencies is made.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Treasury's policy with regard to concentration of credit risk for the short-term fixed income pool is to prohibit the purchase of more than 5% of the portfolio's assets in corporate bonds of any one company or affiliated group.

The ASPIB's policy with regard to concentration of credit risk for the domestic fixed income, international fixed income, and high yield pools is to prohibit the purchase of more than 5% of the portfolio's assets in corporate bonds of any one company or affiliated group.

At June 30, 2005, the Plan had $589.6 million in Federal National Mortgage Association securities which represented 6% of the Plan's total investments.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2005 and 2004

The cost and fair value of the Plan's investments at June 30 were as follows (in thousands):

	Cost	Fair Value
2005:		
Domestic equity pool	$ 2,906,143	3,296,280
Domestic fixed income	1,889,244	1,910,375
International equity pool	1,335,398	1,337,643
Real estate pool	735,409	827,538
International fixed income pool	299,418	319,301
Private equity pool	429,216	379,843
Emerging markets equity pool	93,026	134,076
Absolute return pool	204,146	210,613
High yield pool	137,771	138,444
Other investments pool	31,138	31,763
	$ 8,060,909	**8,585,876**
2004:		
Domestic equity pool	$ 2,855,031	3,298,973
Domestic fixed income pool	2,223,992	2,209,351
International equity pool	1,341,813	1,364,094
Real estate pool	587,151	628,394
International fixed income pool	272,320	297,481
Private equity pool	329,777	269,233
Emerging markets equity pool	92,092	99,177
Other investments pool	8,122	8,160
	$ 7,710,298	**8,174,863**

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2005 and 2004

The Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows (in thousands):

	2005	2004
Domestic equity pool	$ 94,882	525,916
Domestic fixed income pool	45,707	(87,609)
International equity pool	139,368	321,070
Real estate pool	76,173	10,796
International fixed income pool	17,143	7,836
Private equity pool	44,189	40,053
Emerging markets equity pool	33,965	23,562
Absolute return pool	6,504	-
High yield	599	-
Other investments pool	586	39
	$ 459,116	**841,663**

(4) FOREIGN EXCHANGE, FOREIGN EXCHANGE CONTRACTS AND OFF-BALANCE SHEET RISK

The international fixed income and international equity pool's investment income includes the following at June 30:

	2005	2004
Realized gain on foreign currency	$122,903,509	87,803,704
Unrealized gain (loss) on foreign currency	(26,827)	19,401
Realized gain (loss) on foreign exchange contracts	(217,279)	82,142

The international equity pool includes foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions. The maturity periods for these contracts range from eight to one hundred and twenty-four days. The Plan had net unrealized gains (losses) with respect to such contracts, calculated using forward rates at June 30, as follows:

	2005	2004
Net contract sales	$6,587,214	4,980,969
Less fair value	6,302,248	5,312,169
Net unrealized gains (losses)	**$ 284,966**	**(331,200)**

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2005 and 2004

The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of nonperformance by these counterparties; however, the risk of default is considered to be remote. The market risk is limited to the difference between contractual rates and forward rates at the balance sheet date.

(5) SECURITIES LENDING

Alaska Statute 37.10.071 authorizes the ASPIB to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. ASPIB has entered into an agreement with State Street Corporation (the Bank) to lend equity and domestic fixed income securities. The Bank, acting as the ASPIB's agent under the agreement, transfers securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

At June 30, 2005 and 2004, the fair value of securities on loan allocable to the Plan's invested assets totaled $642,524,010 and $960,292,029, respectively. There is no limit to the amount that can be loaned and the ASPIB is able to sell securities on loan. International equity security loans are collateralized at not less than 105% of their fair value. All other security loans are collateralized at not less than 102% of their fair value. Loaned securities and collateral is marked to market daily and collateral is received or delivered the following day to maintain collateral levels.

Cash collateral is invested in a registered 2(a)-7 money market fund which is valued at amortized cost, which approximates fair value. Maturities of investments in the money market fund generally did not match the maturities of the loaned securities because the lending agreements are terminable at will. Securities collateral may be pledged or sold upon borrower default. Since the ASPIB does not have the ability to pledge or sell securities collateral unless the borrower defaults, they are not recorded on the financial statements. Securities on loan, cash collateral, and cash collateral payable are recorded on the financial statements. The Bank, the Plan, and the borrower receive a fee from earnings on invested collateral. The Bank and the Plan share a fee paid by the borrower for loans not collateralized with cash.

There is limited credit risk associated with the lending transactions since the ASPIB is indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security or its related income distributions. The Bank further indemnifies the ASPIB against loss due to borrower rebates in excess of earnings on cash collateral. Indemnifications are subject to limitation relating to war, civil unrest, or revolution, or beyond the reasonable control of the Bank.

For the year ended June 30, 2005 and 2004, there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2005 and 2004

(6) TRANSFER TO RETIREMENT SYSTEMS

During fiscal year 2004, a review was conducted of all medical reserve amounts in the Retiree Health Fund. An analysis was conducted which considered: (1) the medical portion of net assets held in trust for benefits and other purposes, (2) prior and current year amounts incurred but not paid, (3) the amount necessary for the contingency reserve, and (4) the amount necessary for a premium stabilization reserve. The result was an excess computed amount of net assets not specifically identified to other reserves. The excess amount was then moved back to the respective retirement system. There is an earnings differential on invested assets between the base trust fund and the Plan. Earnings on such excess reserves should remain with the base retirement trust. Such an analysis is conducted periodically to determine that reserves are adequate, but not excessive.

Based on this review, the Plan received $13,724,000 in fiscal year 2004 from the Retiree Health Fund.

(7) COMMITMENTS AND CONTINGENCIES

Commitments

The ASPIB entered into an agreement through an external investment manager to provide capital funding for a domestic equity limited partnership. At June 30, 2005, the Plan's participant share of the unfunded commitment totaled $104,826,035. This commitment can be withdrawn annually in December with ninety days notice.

The ASPIB entered into agreements through external investment managers to provide capital funding for limited partnerships as it continues to build the private equity portfolio. At June 30, 2005, the Plan's participant share of these unfunded commitments totaled $482,295,527. Ninety-four percent of this commitment is estimated to be paid through the year 2010. Six percent of this commitment can be withdrawn annually in December with ninety days notice.

The ASPIB entered into an agreement through an external investment manager to provide capital funding for a limited partnership as it continues to build the other investment portfolio. At June 30, 2005, the Plan's participant share of this unfunded commitment totaled $39,800,301 to be paid through the year 2007.

The ASPIB entered into agreements through external investment managers to provide capital funding for real estate investments as it continues to build the real estate portfolio. At June 30, 2005, the Plan's participant share of these unfunded commitments totaled $235,140,626 to be paid through the year 2010.

Contingencies

The State was a defendant in a lawsuit filed by the Alaska Civil Liberties Union and a number of same-sex couples with regards to the statutes limiting employee health insurance coverage to employees and their spouses and dependants, thus excluding coverage for domestic partners of employees. An adverse ruling against the State was issued on October 28, 2005. The effect of this ruling will increase the number of persons covered by insurance paid by the Plan.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2005 and 2004

The court ruling states that the Plan's current benefit program will remain in effect until the issue of remedies is resolved. The potential effect of this ruling cannot be reasonably estimated until the issue of remedies is resolved. As such, the Plan has not recorded the financial impact of this ruling. The costs associated with this ruling will be passed through to employers through the normal contribution process.

The State and/or the Plan are defendants in the following lawsuits. The Plan has not recorded an accrual related to any of the lawsuits, because an unfavorable outcome in these matters is, in management's opinion, not considered probable but rather only possible, and the potential loss, if any, cannot be reasonably estimated at this time. If an unfavorable outcome occurs, the costs would be passed through to employers through the normal contribution process.

The Plan is a defendant in four similar lawsuits, three of which are class action suits. The lawsuits pertain to whether recent changes to the retiree health insurance program under the Plan resulted in violations of members' constitutional rights to retirement benefits. The Superior Court granted summary judgment in favor of the plaintiffs on the issue of liability, and the Alaska Supreme Court granted the Plan's petition for review. Following briefing and argument, the Supreme Court reversed the Superior Court and remanded for further proceedings. This issue is now pending in the Superior Court for a determination of the matter in accordance with the Supreme Court's instructions.

Approximately 50 Plan members have filed administrative challenges to the Plan administrator's refusal to include leave cash-in payments in the compensation used to calculate the members' retirement benefits. The members were all first hired by Plan employers before July 1, 1977, and claim that they have a constitutional right, based on the Plan statutes in effect before that date, to have leave cash-in payments included. The Plan board, which hears appeals from decisions of the Plan administrator, has ruled on two of the appeals, and those rulings have in turn been appealed to the Alaska Superior Court. The remaining appeals have been stayed by the Plan board. In addition, a class action lawsuit, raising the same issues, has been filed in the Superior Court, but has been put on hold until final resolution of the members' claim. The administrator intends to vigorously contest all of these claims.

The State is a defendant in a class action lawsuit involving a constitutional challenge to Plan statutes that provide a 10% cost of living adjustment (COLA) to retirees and other benefit recipients who reside in the state of Alaska. The plaintiffs claim that these statutes violate the right to travel of nonresident benefit recipients, and therefore, the 10% COLA should be paid to all benefit recipients, regardless of residence. The class action lawsuit will be submitted to the Alaska Supreme Court to consider the constitutionality of the COLA statutes and how they are applied.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Required Supplementary Information
(Unaudited)
(000's omitted)

Schedule of Funding Progress
Pension Benefits

June 30, 2005 and 2004

Actuarial valuation year ended June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Funded excess (FE) (Unfunded actuarial accrued liabilities) (UAAL)	Funded ratio	Covered payroll	FE/(UAAL) as a percentage of covered payroll
1998	$4,692,095	4,430,237	261,858	105.9%	1,235,439	21.2%
1999	4,992,453	4,730,841	261,612	105.5	1,283,549	20.4
2000	5,245,612	5,190,835	54,777	101.1	1,321,480	4.1
2001	5,579,440	5,528,026	51,414	100.9	1,208,700	4.3
2002	4,611,170	6,133,182	(1,522,012)	75.2	1,245,054	(122.2)
2003	4,607,673	6,330,541	(1,722,868)	72.8	1,300,041	(132.5)

See accompanying notes to required supplementary information and independent auditors' report.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Required Supplementary Information
(Unaudited)
(000's omitted)

Schedule of Funding Progress
Postemployment Healthcare Benefits

June 30, 2005 and 2004

Actuarial valuation year ended June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Funding excess (FE) (Unfunded actuarial accrued liabilities) (UAAL)	Funded ratio	Covered payroll	FE/(UAAL) as a percentage of covered payroll
1998	$1,879,467	1,773,754	105,713	105.9%	1,235,439	8.6%
1999	2,023,887	1,917,832	106,055	105.5	1,283,549	8.3
2000	2,209,146	2,186,077	23,069	101.1	1,321,480	1.7
2001	2,362,316	2,340,548	21,768	100.9	1,208,700	1.8
2002	2,801,663	3,726,409	(924,746)	75.2	1,245,054	(74.3)
2003	3,079,608	4,231,112	(1,151,504)	72.8	1,300,041	(88.6)

See accompanying notes to required supplementary information and independent auditors' report.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Required Supplementary Information
(Unaudited)
(000's omitted)

Schedule of Employer Contributions
Pension and Postemployment Healthcare Benefits

June 30, 2005 and 2004

Year ended June 30	Pension annual required contribution	Postemployment healthcare annual required contribution	Total annual required contribution	Pension percentage contributed (note 3)	Postemployment healthcare percentage contributed (note 3)	Total percentage contributed (note 3)
2000	$ 63,344	25,740	89,084	105.2%	105.2%	105.2%
2001	65,151	26,477	91,628	105.3	105.3	105.3
2002	65,485	26,613	92,098	102.9	102.9	102.9
2003	63,283	26,651	89,934	110.3	110.3	110.3
2004	74,178	31,407	105,585	100.0	100.0	100.0
2005	210,147	127,682	337,829	52.7	52.7	52.7

See accompanying notes to required supplementary information and independent auditors' report.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Required Supplementary Information
(Unaudited)

June 30, 2005 and 2004

(1) DESCRIPTION OF SCHEDULE OF FUNDING PROGRESS

Each time a new benefit is added which applies to service already rendered, an "unfunded actuarial accrued liability" is created. Laws governing the Plan require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to the unfunded actuarial accrued liability.

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amounts resulting in unfunded actuarial accrued liabilities increasing in dollar amounts, all at a time when the actual value of these items, in real terms, may be decreasing.

(2) ACTUARIAL ASSUMPTIONS AND METHODS

The actuarial valuation is prepared by Mercer Human Resource Consulting. The significant actuarial assumptions used in the valuations as of June 30, 2003, are as follows:

(a) Actuarial cost method – projected unit credit, unfunded actuarial accrued liability or funding excess amortized over a rolling twenty-five year fixed period level percentage of pay.

(b) Mortality basis–1994 Group Annuity Mortality Basic Table for males and females, 1994 base year. Deaths are assumed to be occupational 85% of the time for police and fire members, 35% of the time for other members.

(c) Retirement–retirement rates based on the 1997-1999 actual experience.

(d) Investment return–8.25% per year, compounded annually, net of expenses.

(e) Health cost trend –

Fiscal Year	
2005	12.0%
2006	11.5
2007	11.0
2008	10.5
2009	10.0
2010	9.5
2011	9.0
2012	8.5
2013	8.0
2014	7.5
2015	7.0
2016	6.0
2017 and later	5.0

(f) Salary scale–inflation 3.5%, productivity and merit (first five years) for police and fire members, 1.0% and 1.5%, respectively, and for all other members, productivity and merit (first ten years) 0.5% and 1.5%, respectively.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Required Supplementary Information
(Unaudited)

June 30, 2005 and 2004

(g) Total inflation–total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.5% annually.

(h) Cost of living allowance (domicile in Alaska)–68% of those benefit recipients who are eligible for the allowance are assumed to remain in Alaska and receive the allowance.

(i) Contribution refunds–100% of those employees terminating after age thirty-five who are vested will leave their contributions in the Plan and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.

(j) Disability–incidence rates based upon the 1991-1995 actual experience of the Plan. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability benefits under Social Security.

(k) Asset valuation method–recognize 20% of the investment gains and losses in each of the current and preceding four years and phased in over the next five years. All assets are valued at market value. Valuation assets cannot be outside a range of 80% to 120% of the market value of assets.

(l) Valuation of medical benefits for retirees–a pre-age sixty-five cost and lower post-age sixty-five cost (due to Medicare) are assumed such that the total rate for all retirees equals the present premium rate assumption. These medical premiums are then increased with the health cost inflation assumption.

(m) Spouse's age–wives are assumed to be four years younger than husbands.

(n) Dependent children–benefits to dependent children have been valued assuming members who are not single have one dependent child.

(o) Postretirement pension adjustment–50% and 75% of assumed inflation is valued for the automatic Post Retirement Pension Adjustment (PRPA) as specified by statute.

(p) Expenses–expenses are covered in the investment return assumption.

(q) Total turnover–based upon the 1997-1999 actual withdrawal experience.

(r) Part-time status–part time employees are assumed to earn 0.600 years of credited service per year.

(s) New entrants–growth projections are made for the active population under three scenarios:

Pessimistic:	0% per year
Median:	1% per year
Optimistic:	2% per year

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Required Supplementary Information
(Unaudited)

June 30, 2005 and 2004

The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the Plan. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

All significant accounting policies, benefit provisions, and actuarial assumptions are the same for the required supplementary information and the financial statements except as follows:

Effective June 30, 2000, the following changes were made:

- The mortality basis was changed from the 1984 Unisex Pension Mortality Table to the 1994 Group Annuity Mortality Basic Table, 1994 base year.
- The turnover assumptions were revised based on actual withdrawal experience in 1997-1999.
- The retirement age assumptions were revised based on actual experience in 1997-1999.
- The health cost trend assumptions were changed for fiscal years 2009 and later from an ultimate rate of 4.5% for fiscal years 2009-2013 and 4% for all subsequent fiscal years.
- The salary scale assumptions were changed. The inflation assumption was changed to 3.5% from 4%, the productivity and merit (first five years) assumptions of 0.5% and 1%, respectively, were broken out for police/fire members and other members. Productivity and merit (first five years) for police/fire members and other members were set at 1% and 1.5%, and 0.5% and 1.5%, respectively.
- The total inflation assumption was changed from 4% to 3.5%.
- The cost of living allowance was decreased from 71% to 68%.
- Disabilities are no longer assumed to be occupational 85% of the time for police and fire members and 35% for other members.
- The percentage used to reduce the actuarial value of assets in the target unfunded (surplus) accrued liability calculation was increased to 2.343757% from 2.296%.
- For the June 30, 2000, actuarial valuation, data as of June 30, 1999, was projected one year using standard actuarial techniques. The active population count was assumed to increase by 1.72% (quadratic extrapolation over the most recent three valuation dates). Actual CPI data was used to estimate new PRPA benefits for participants retired as of June 30, 1999.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Required Supplementary Information
(Unaudited)

June 30, 2005 and 2004

Effective June 30, 2001, the following changes were made:

- The percentage used to reduce the actuarial value of assets in the target unfunded (surplus) accrued liability calculation was increased to 3.381643% from 2.343757%.

Effective June 30, 2002, the following changes were made:

- The target funding ratio was changed from 102% to 100%.
- The actuarial cost method was changed from a rolling twenty-five year period to a twenty-five year fixed period level percentage of pay.
- The salary scale assumptions were changed. Productivity rates (first five years) for police/fire members were set at 1.0% from 0.5%.
- Part-time employees are assumed to earn 0.600 years of credited service per year.
- The health cost trend assumptions were changed for fiscal years 2003 and later from an ultimate rate of 12.0% for fiscal years 2003-2005 decreasing in yearly 0.5% increments to 5.0% beginning in 2017 and all subsequent fiscal years.
- The asset valuation method was changed to recognize 20% of the investment gains and losses in each of the current and preceding four years and will be phased in over the next five years.

(3) ENHANCED ACTUARIAL PROJECTION SYSTEM

The Plan's actuary, at the request of the Public Employees Retirement Board, uses an enhanced actuarial projection system to determine annual employer contribution rates. Although the same actuarial cost method is used by the Plan's actuary, the enhanced system projects population growth patterns and their associated liabilities twenty-five years into the future.

The purpose of the enhanced actuarial projection system is to level out contribution rates in order to provide employers with a more stable long-term contribution pattern.

The Plan's utilization of the enhanced actuarial projection system resulted in 1998-1999 employer contributions being equal to the annual required contribution and 2000-2003 employer contributions being more than the annual required contribution.

Schedule 1

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Schedule of Administrative and Investment Expenses

Year ended June 30, 2005
with comparative totals for 2004
(000's omitted)

	Administrative	Investment	Totals 2005	Totals 2004
Personal services:				
Wages	$ 2,174	892	3,066	3,066
Benefits	941	324	1,265	1,168
Total personal services	3,115	1,216	4,331	4,234
Travel:				
Transportation	50	83	133	80
Per diem	11	11	22	64
Moving	-	21	21	-
Honorarium	15	17	32	33
Total travel	76	132	208	177
Contractual services:				
Management and consulting	514	15,876	16,390	17,020
Accounting and auditing	21	822	843	815
Other professional services	-	-	-	836
Data processing	307	248	555	240
Communications	101	50	151	256
Advertising and printing	90	45	135	331
Rentals/leases	172	25	197	115
Legal	320	93	413	68
Medical specialists	75	-	75	29
Repairs and maintenance	5	9	14	16
Transportation	1	3	4	4
Securities lending	-	13,221	13,221	7,448
Other services	109	41	150	129
Total contractual services	1,715	30,433	32,148	27,307
Other:				
Equipment	55	16	71	11
Supplies	45	52	97	118
Total other	100	68	168	129
Total administrative and investment expenses	**$ 5,006**	**31,849**	**36,855**	**31,847**

See accompanying independent auditors' report.

Schedule 2

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Schedule of Payments to Consultants Other Than Investment Advisors

Years ended June 30, 2005 and 2004 (000's omitted)

Firm	Services	2005	2004
State Street Corporation	Custodian banking services	$ 991	942
Deloitte and Touche LLP	Benefits consultation	46	148
Mercer Human Resource Consulting	Actuarial services	339	316
Systems Central Services, Inc.	Data processing consultants	241	214
State of Alaska, Department of Law	Legal services	284	253
Mikunda, Cottrell & Co., Inc.	PERS Board elections	55	-
Wohlforth, Johnson, Brecht, Cartledge and Brooking	PERS Board legal services	-	25
First National Bank of Alaska	Banking services	27	25
KPMG LLP	Auditing services	48	22
		$ 2,031	**1,945**

See accompanying independent auditors' report.

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